

§ 703.90 What must I do to monitor the risk of my securities?

(a) At least monthly, you (a federal credit union) must prepare a written report setting forth, for each security you hold, the fair value and dollar change since the prior month-end, with summary information for the entire portfolio.

(b) At least quarterly, you must prepare a written report setting forth the sum of the fair values of all fixed and variable rate securities you hold that have one or more of the following features:

- (1) Embedded options;
- (2) Remaining maturities greater than 3 years; or
- (3) Coupon formulas that are related to more than one index or are inversely related to, or multiples of, an index.

(c) Where the amount calculated in paragraph (b) of this section is greater than your net capital, the report described in that paragraph must provide a reasonable and supportable estimate of the potential impact, in percentage and dollar terms, of an immediate and sustained parallel shift in market interest rates of plus and minus 300 basis points on:

- (1) The fair value of each security in your portfolio;
- (2) The fair value of your portfolio as a whole; and
- (3) Your net capital.

(d) Where you do not have an investment-related committee, each member of your board of directors must receive a copy of the reports described in paragraphs (a) through (c) of this section. Where you have an investment-related committee, each member of the committee must receive copies of the reports, and each member of the board must receive a summary of the information in the reports.

§ 703.100 What investments and investment activities are permissible for me?

(a) You (a Federal credit union) may contract for the purchase or sale of a security as long as the delivery of the security is by regular-way settlement. Regular-way settlement means delivery of a security from a seller to a buyer within the time frame that the

securities industry has established for that type of security.

(b) You may invest in a variable rate investment, as long as the index is tied to domestic interest rates and not, for example, to foreign currencies, foreign interest rates, or domestic or foreign commodity prices, equity prices, or inflation rates. For purposes of this part, the U.S. dollar-denominated London Interbank Offered Rate (LIBOR) is a domestic interest rate.

(c) You may purchase shares or deposits in a corporate credit union, except where the NCUA Board has notified you that the corporate credit union is not operating in compliance with part 704 of this chapter. Your aggregate purchase of member paid-in capital and membership capital in one corporate credit union is limited to one percent of your assets. Member paid-in capital and membership capital are defined in part 704 of this chapter.

(d) You may invest in a registered investment company or collective investment fund, as long as the prospectus of the company or fund restricts the investment portfolio to investments and investment transactions that are permissible for federal credit unions. For the purposes of this part, the following definitions apply:

(1) A *registered investment company* is an investment company that is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. 80a). Examples of registered investment companies are mutual funds and unit investment trusts.

(2) A *collective investment fund* is a fund maintained by a national bank under 12 CFR part 9.

(e) You may invest in fixed or variable rate CMOs/REMICs.

(f) You may purchase and hold a municipal security only if a nationally recognized statistical rating organization (NRSRO) has rated it in one of the four highest rating categories. A municipal security is a security as defined in Section 107(7)(K) of the Act. An NRSRO is a rating organization that the Securities and Exchange Commission has recognized as an NRSRO.

(g) You may sell federal funds to Section 107(8) institutions and credit unions, as long as the interest or other

consideration received from the financial institution is at the market rate for federal funds transactions.

(h) You may invest in the following instruments issued by a Section 107(8) institution or branch:

- (1) Yankee dollar deposits;
- (2) Eurodollar deposits;
- (3) Bankers acceptances;
- (4) Deposit notes; and
- (5) Bank notes with original weighted average maturities of less than five years.

(i) A repurchase transaction is a transaction in which you agree to purchase a security from a counterparty and to resell the same or an identical security to that counterparty at a specified future date and at a specified price. You may enter into a repurchase transaction as long as:

(1) The repurchase securities are legal investments for federal credit unions;

(2) You receive a daily assessment of the market value of the repurchase securities, including accrued interest, and maintain adequate margin that reflects a risk assessment of the repurchase securities and the term of the transaction; and

(3) You have entered into signed contracts with all approved counterparties.

(j) A reverse repurchase transaction is a transaction in which you agree to sell a security to a counterparty and to repurchase the same or an identical security from that counterparty at a specified future date and at a specified price. You may enter into reverse repurchase and collateralized borrowing transactions as long as:

(1) Any securities you receive are permissible investments for federal credit unions, you receive a daily assessment of their market value, including accrued interest, and you maintain adequate margin that reflects a risk assessment of the securities and the term of the transaction;

(2) Any cash you receive is subject to the borrowing limit specified in Section 107(9) of the Act, and any investments you purchase with that cash are permissible for federal credit unions and mature no later than the maturity of the transaction; and

(3) You have entered into signed contracts with all approved counterparties.

(k) You may enter into a securities lending transaction as long as:

(1) You receive written confirmation of the loan;

(2) Any collateral you receive is a legal investment for federal credit unions, you obtain a perfected first priority security interest in the collateral, you either take physical possession or control of the collateral or are recorded as owner of the collateral through the Federal Reserve Book-Entry Securities Transfer System; and you receive a daily assessment of the market value of the collateral, including accrued interest, and maintain adequate margin that reflects a risk assessment of the collateral and the term of the loan;

(3) Any cash you receive is subject to the borrowing limit specified in Section 107(9) of the Act, and any investments you purchase with that cash are permissible for federal credit unions and mature no later than the maturity of the transaction; and

(4) You have executed a written loan and security agreement with the borrower.

(l)(1) You may trade securities, including engaging in when-issued trading and pair-off transactions, as long as you can show that you have sufficient resources, knowledge, systems, and procedures to handle the risks.

(2) You must record any security you purchase or sell for trading purposes at fair value on the trade date. The trade date is the date you commit, orally or in writing, to purchase or sell a security.

(3) At least monthly, you must give your board of directors or investment-related committee a written report listing all purchase and sale transactions of trading securities and the resulting gain or loss on an individual basis.

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